

**2006-2007
MID-YEAR BUDGET REVIEW
Section I**

STATUS OF SELECTED SPECIAL FUNDS

The large majority of special funds are tracking within estimated levels. A number of the special funds, however, have been impacted by the current economic conditions. Following are status reports for selected special operating funds that have significant revenue and/or expenditures variances from the modified budget or other issues of interest through the first six months of the year. As a result, therefore, several actions are recommended as part of this report to address variances that have been identified to date, bringing expenditures back in line with revised revenue estimate projections. These funds will continue to be monitored to ensure they stay at appropriate levels through the end of the year.

Airport Operating Funds Overview

Airport Activity

Activity at San José Mineta International Airport (SJC) continues to be sluggish. Passenger traffic, cargo weights, landings, takeoffs, and rental car activity all remain slightly below prior year levels.

Terminal A (American Airlines/American Eagle, Hawaiian Airlines, Mexicana Airlines, and Southwest Airlines) passenger traffic has benefited from the arrival of Hawaiian Air and the relocation of Mexicana Airlines from Terminal C. This new activity resulted in a modest increase of 0.2%, in spite the continual decline of American Airlines/American Eagle's passenger activity (7.8%) in the current fiscal year.

Terminal C's passenger activity declined 6.7% with approximately 2.0% of the decline attributable to the relocation of Mexicana Airlines. Additionally, Atlantic Southeast Air and Independence Air both ceased operations at SJC in 2005-2006. America West, Continental, and SkyWest each registered growth in passenger activity, of 4.2%, 7.5%, and 7.3% respectively, over the prior year.

During the first six months of 2006-2007, operations at the Airport (landings and take offs) have decreased by 5.0% from activity in 2005-2006. Although passenger carrier operations remained constant, commuter activity declined 5.9% as American Eagle, the most active commuter carrier at SJC, declined 6.8%. Rental car contracts, representing activity through November, trailed (0.2%) slightly that of last year. Although parking hourly exits are down by 3.6% for the year and daily exits decreased by 4.2% for the first 6 months of the year, parking revenue was 2.0% above the previous year total. General Aviation (GA) itinerant operations, GA local operations, and military operations all registered declines from last year (combined decline of 12.5%).

Although passenger traffic and activity have not kept pace with either 2005-2006 or growth projections, the Airport's current fiscal situation is stable. Due to conservative estimates, revenues are slightly higher than projected and, due to a high number of vacancies, personal service expenditures are tracking significantly below budgeted levels. The following provides details on both revenues and expenditures.

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**Airport Operating Funds Overview
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Airport Revenue

As of December 31, 2006, year-to-date operating revenues in the Airport Revenue Fund, excluding carryover surplus and coverage, total \$44.4 million. Revenues are 3.4% higher than the budget estimate due to conservative estimating and are consistent with the prior year's level. With the exception of Landing Fees and Terminal Rentals, all revenue categories are performing at or slightly above projections. As with prior years, certain revenues were not recorded in December because the period was shortened by the closure of City offices for the holiday closure.

Airport Expenditures

Overall, expenditures in Airport Operating funds are tracking below year-to-date estimates. The Airport has developed a 2006-2007 Cost/Position Management Plan that is anticipated to save close to \$2.5 million by the end of the year.

Two operating funds exist to provide Airport services, the Airport Maintenance and Operation Fund and the Airport Customer Facilities and Transportation Fee Fund. The Airport Maintenance and Operation Fund provides funding for personal and non-personal/equipment expenditures associated with Airport operations, including, but not limited to, Airport staff, Airport police services,

Station 20 aircraft rescue and fire fighting services, interdepartmental charges, and overhead to the General Fund. The Airport Customer Facilities and Transportation Fee Fund accounts for costs associated with rental car busing services between the consolidated rental car facility and the terminals.

Airport Maintenance and Operation Fund departmental expenditures through December are tracking below budgeted levels in both personal services and non-personal/equipment categories. Additional information on this fund is available in the following pages.

Personal services costs in the Airport Customer Facilities and Transportation Fee Fund are also tracking below estimated levels due to a staff vacancy. Non-personal/equipment expenditures are tracking below budgeted levels primarily due to reduced shuttle bus expenses resulting from a reduction to the size of the shuttle bus fleet.

Although revenues are running slightly higher than budgeted and expenditures are less than budgeted, Airport funds are being carefully managed to ensure that savings targets are met and that customer service does not suffer significantly. A complete financial summary of the Airport Maintenance and Operation Fund and the Airport Revenue Fund are included later in this document.

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Airport Maintenance and Operation Fund

	2006-2007 Adopted Budget	Change	2006-2007 Current Modified	2006-2007 YTD Actual	2006-2007 % of Budget	2005-2006 % of Budget
<i>Beginning Fund Balance</i>	7,806,781	1,084,050	8,890,831	N/A	N/A	N/A
<i>Encumbrance Reserve</i>	5,025,945	5,716	5,031,661	N/A	N/A	N/A
<i>Revenues</i>	99,105,170	302,835	99,408,005	49,552,584	49.8%	49.6%
TOTAL SOURCES	111,937,896	1,392,601	113,330,497	49,552,584		
<i>Expenditures</i>	93,251,593	6,383,900	99,635,493	35,724,031	35.9%	42.7%
<i>Encumbrance Reserve</i>	5,025,945	(5,025,945)	0	N/A	N/A	N/A
<i>Other Reserves</i>	6,000,000	(1,049,404)	4,950,596			
<i>Ending Fund Balance - Reserved per Master Trust Agreement</i>	2,913,848	(56,029)	2,857,819	N/A	N/A	N/A
<i>Ending Fund Balance - Other Reserves</i>	4,746,510	1,140,079	5,886,589	N/A	N/A	N/A
TOTAL USES	111,937,896	1,392,601	113,330,497	35,724,031		

Fund Status

Revenues – Revenues for this fund consist primarily of cash transfers from the Airport Revenue Fund. The 2006-2007 transfers into the Airport Maintenance and Operation Fund continue to occur as budgeted. Two increases to the transfer from the Airport Revenue Fund are recommended and total \$1.7 million. One adjustment (\$140,000) would accommodate increased interest costs associated with the lease payment of the former FMC property. The second adjustment would accommodate Airport Police overtime costs associated with level Orange Alert checkpoint security. These

adjustments will be reflected in the transfers to the General Fund.

Expenditures – Expenditures in this fund represent operating costs for the Airport, direct charges from various City departments that provide support services to the Airport, and transfers to the General Fund for Police and Fire services. Through December, both Airport personal and non-personal/equipment expenditures are tracking below budgeted levels.

In personal services, the Airport Department currently has 49.2 vacancies. The Airport has

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Airport Maintenance and Operation Fund
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Fund Status (Cont'd.)

Expenditures (Cont'd.)

expended \$164,353 or 42.3% of its overtime budget through December. This represents an increase from 2005-2006 of \$101,597 in overtime expenditures and 34.3 vacant positions. Increased overtime levels are the result of providing coverage for vacant positions as well as the need to maintain constant staffing levels. Nevertheless, overtime expenditures currently fall within internal guidelines which continue to restrict the use of overtime to provide required constant staffing, emergency and standby response, and holiday coverage.

Current savings in non-personal/equipment expenditures for Airport operations are the result of lower overhead costs, which has reduced annual expenses by over \$2.0 million. When the 2006-2007 Adopted Budget was developed, the overhead rates were not yet published by the Finance Department. The final rates are now available and are lower than those assumed by the Airport in the development of the budget. It is anticipated that a transfer for overhead expenses for the first six months of the year will be made in January 2007.

The Airport has developed its own Cost/Position Management Plan for 2006-2007 with targeted savings of almost \$2.5 million. The Plan was developed from savings goals assigned to each Airport division and include approximately \$2.4 million in Airport personal

services vacancy savings and \$47,000 in non-personal/equipment cost reductions. Targeted reductions include holding approximately 8.0 positions vacant for the remainder of the fiscal year and holding another 30.0 positions vacant for a portion of the year. After several years of developing non-personal/equipment reduction proposals and savings targets, potential non-personal/equipment savings are limited. Savings in supplies and rental of equipment categories have however been identified for the current year.

Interdepartmental expenditures (charges for staff and services located in other City departments including Police and Fire) total \$9.2 million through December and are tracking at year-to-date estimates. It is recommended in this report to increase the transfer for Police Services by approximately \$1.5 million. The increase is necessary to reimburse the General Fund for police overtime expenses related to higher levels of checkpoint staffing required due to the Level Orange Alert instituted in August 2006; the Urban Area Security Initiative Grant (UASI) has reimbursed a portion of these costs (\$553,311). The additional costs attributed to the higher staffing levels are slightly offset by the implementation of a new, higher Police retirement rate for enhanced benefits that ended up actually being slightly lower than budgeted. Airport workers' compensation claims to date total \$301,889 (62.9% spent) and show an increase (\$63,930) in comparison to the mid-year total for 2005-2006.

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**Airport Maintenance and Operation Fund
(Cont'd.)**

Fund Status (Cont'd.)

Fund Balance – No adjustment to the ending fund balance in the Airport Maintenance and Operation Fund is recommended at this time.

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(CONT'D.)**

Airport Revenue Fund

	2006-2007 Adopted Budget	Change	2006-2007 Current Modified	2006-2007 YTD Actual	2006-2007 % of Budget	2005-2006 % of Budget
<i>Beginning Fund Balance</i>	15,975,941	5,129,992	21,105,933	N/A	N/A	N/A
<i>Revenues</i>	94,847,379	0	94,847,379	44,406,125	46.8%	48.0%
<i>Transfers</i>	15,368,390	0	15,368,390	N/A	N/A	28.2%
<i>TOTAL SOURCES</i>	126,191,710	5,129,992	131,321,702	44,406,125		
<i>Expenditures</i>	125,942,466	302,835	126,245,301	56,814,953	45.0%	42.1%
<i>Unrestricted Ending Fund Balance</i>	249,244	4,827,157	5,076,401	N/A	N/A	N/A
<i>TOTAL USES</i>	126,191,710	5,129,992	131,321,702	56,814,953		

Fund Status

Revenues – As indicated in the overview, overall revenue collections in the Airport Revenue Fund are tracking slightly above the estimated budget.

Year-to-date landing fees were less than 1% short of the estimated budget. Revenues compared favorably with the prior year primarily due to the increase in the maximum gross landing weight rate from \$1.43 to \$1.80 per thousand pounds. The lower performance of the terminal rentals relative to the estimated budget was affected by the decrease in operations space by American and Delta, as well as the move of Mexicana Airlines to Terminal A.

Airfield revenues were tracking at 2.5% above the budgeted estimate, however, since the holiday closure delayed the posting of some transactions, actual activity is slightly understated. Higher revenues, as the result of conservative estimating, were widespread across most revenue categories including cargo and commuter landing fees, terminal concessions, and miscellaneous rents. Rental car concession fees and food and beverage surplus revenues offset advertising, other space rental, and Federal Inspection Services facility revenues.

Parking and roadway revenues also performed above budgeted levels. Short-term parking posted the greatest revenue and has collected 100% of the year-to-date budgeted estimate, long-term parking collected 101%, and

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Airport Revenue Fund
(Cont'd.)

Fund Status (Cont'd.)

Revenues (Cont'd.)

Other Ground Transportation collected 121% of the year-to-date budgeted estimate. General and non-aviation revenues continued to grow as the result of increased land rentals by Park N Travel and BAE Systems. Additionally, higher-than-anticipated investment income and the increased transfer of interest and excess reserve from the fiscal agent contributed to greater than projected revenue. With strong demand for compressed natural gas, overall petroleum program revenues exceeded the mid-year budget estimates by 5.0%.

An increase of \$140,000 to Commercial Paper Proceeds is recommended in this document to compensate for higher lease payments on the former FMC property due to revised interest rates.

In addition, as mentioned previously, \$553,311 in UASI grant funding is proposed for inclusion

to partially fund Airport Orange Alert Police overtime for the period of August 10th to November 30th 2006. The remaining \$1,049,600 required to fund Police overtime for the remainder of the year will come from an increase to the landing fees and thus a corresponding increase is recommended to Airline Revenue. The total of these funds, \$1,602,911, is recommended be transferred to the Airport Maintenance and Operation Fund, and shown as an increase to the Transfer for Police Services appropriation.

Expenditures – Expenditures in this fund consist entirely of transfers to other funds. Transfers are made on a monthly basis in accordance with the Master Trust Agreement. The above noted increases of \$140,000 (Property Lease Payment) and \$1,602,911 (Police Services) to the Airport Maintenance and Operation Fund transfer are recommended in this document to accommodate projected costs.

Fund Balance – No change to the Fund Balance is needed during the mid-year budget process.

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(CONT'D.)**

Convention and Cultural Affairs Fund

	2006-2007 Adopted Budget	Change	2006-2007 Current Modified	2006-2007 YTD Actual	2006-2007 % of Budget	2005-2006 % of Budget
<i>Beginning Fund Balance</i>	289,146	289,313	578,459	N/A	N/A	N/A
<i>Encumbrance Reserves</i>	139,371	10,949	150,320	N/A	N/A	N/A
<i>Revenues</i>	15,841,245	511,795	16,353,040	6,219,794	38.0%	37.3%
<i>TOTAL SOURCES</i>	16,269,762	812,057	17,081,819	6,219,794		
<i>Expenditures</i>	14,405,347	400,320	14,805,667	7,672,884	51.8%	60.6%
<i>Encumbrance Reserves</i>	139,371	(139,371)	0	N/A	N/A	N/A
<i>Other Reserves</i>	200,000	0	200,000	N/A	N/A	N/A
<i>Unrestricted Ending Fund Balance</i>	1,525,044	551,108	2,076,152	N/A	N/A	N/A
<i>TOTAL USES</i>	16,269,762	812,057	17,081,819	7,672,884		

Fund Status

Revenues – On an overall basis, revenues in the Convention and Cultural Affairs Fund are tracking slightly below expected levels. This is partly due to a slight delay in the booking into the City's Financial Management System of actual cash collections after taking this into account, revenues are performing as anticipated. Team San José (TSJ) management will continue to actively evaluate the current business environment and identify potential business opportunities to increase revenue. Through December, according to TSJ, building rental revenues are tracking as expected, as are most other revenue sources such as labor and equipment rentals.

Approximately 43% (\$7.0 million) of the Fund's revenues (\$16.4 million) are from transfers from the Transient Occupancy Tax Fund and General Purpose Parking Fund which have been made based on budgeted estimates. Staff will continue to monitor these revenues closely, and report current status in future Monthly Financial Reports.

Expenditures – Expenditures through December in the Convention and Cultural Affairs Fund are tracking slightly below expectations in personal services due to position vacancies. Conversely, non-personal/equipment expenditures are above anticipated levels due to the use of contract labor to cover vacancies through the first half of the year; however, many of these vacancies

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**Convention and Cultural Affairs Fund
(Cont'd.)**

Fund Status (Cont'd.)

Expenditures (Cont'd.)

have now been filled so the use of contract labor is expected to be reduced for the remainder of the year. A net-zero transfer of personal services savings to the Non-personal/Equipment

appropriation in the amount of \$350,000 is recommended in this report to properly align the contract labor costs with the budget.

Fund Balance – No adjustments to the Ending Fund Balance in the Convention and Cultural Affairs Fund are required at this time.

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Integrated Waste Management Fund

	2006-2007 Adopted Budget	Change	2006-2007 Current Modified	2006-2007 YTD Actual	2006-2007 % of Budget	2005-2006 % of Budget
<i>Beginning Fund Balance</i>	5,902,024	(4,566,497)	1,335,527	N/A	N/A	N/A
<i>Encumbrance Reserve</i>	3,904,386	3,923,999	7,828,385	N/A	N/A	N/A
<i>Other Reserves</i>	3,800,000	0	3,800,000	N/A	N/A	N/A
<i>Revenues</i>	81,770,822	4,953,195	86,724,017	44,400,870	51.2%	48.0%
<i>TOTAL SOURCES</i>	95,377,232	4,310,697	99,687,929	44,400,870		
<i>Expenditures</i>	84,825,770	9,965,242	94,791,012	30,982,671	32.7%	32.3%
<i>Encumbrance Reserve</i>	3,904,386	(3,904,386)	0	N/A	N/A	N/A
<i>Other Reserves</i>	4,410,061	0	4,410,061	N/A	N/A	N/A
<i>Unrestricted Ending Fund Balance</i>	2,237,015	(1,750,159)	486,856	N/A	N/A	N/A
<i>TOTAL USES</i>	95,377,232	4,310,697	99,687,929	30,982,671		

Fund Status

Revenues – Overall revenues are tracking as anticipated through December. Single-Family (SFD) collections are tracking slightly higher than anticipated; however, Lien-Related revenue is tracking slightly lower than anticipated. Due to issues associated with the implementation of the new utility billing system, a modified lien cycle will take place in 2006-2007. As a result, Lien-Related revenue is expected to end the year approximately \$600,000 lower than budgeted levels. This lower revenue is projected to be offset, however, by higher than anticipated SFD revenue, higher Recycle Plus Late Fee revenue and higher interest earnings. Staff will continue to closely monitor activity and

collection levels. Adjustments to the revenue estimates will be brought forward at a later date as needed.

Expenditures – Expenditures in this fund consist entirely of hauler contract expenses and personal services and non-personal/equipment expenditures associated with managing garbage and recycling collections in the City. Current expenditures are tracking as anticipated. The Material Characterization Study approved in the 2006-2007 Adopted Budget has been deferred until spring 2008 due to the change in the hauler contract. The \$300,000 allocated for the study is recommended in this report to be reallocated to the Call Center to provide funding for additional temporary staffing to address the

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**Integrated Waste Management Fund
(Cont'd.)**

Fund Status (Cont'd.)

Expenditures (Cont'd.)

much higher than anticipated current call volume and wait time experienced due to the transition to the new utility billing system and in anticipation of the transition to the new haulers.

Fund Balance – The ending fund balance is not anticipated to be negatively impacted by the shortfall in Lien-Related Revenue due to higher SFD, Recycle Plus Late Fees, and interest earnings anticipated by year-end. Staff will continue to monitor revenue collections and expenditures in this fund to ensure a sufficient ending fund balance will remain at year end.

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(CONT'D.)

Public Works Program Support Fund

	2006-2007 Adopted Budget	Change	2006-2007 Current Modified	2006-2007 YTD Actual	2006-2007 % of Budget	2005-2006 % of Budget
<i>Beginning Fund Balance</i>	641,032	(317,498)	323,534	N/A	N/A	N/A
<i>Encumbrance Reserve</i>	80,811	(46,438)	34,373	N/A	N/A	N/A
<i>Revenues</i>	14,216,168	0	14,216,168	5,129,662	36.1%	33.2%
<i>TOTAL SOURCES</i>	14,938,011	(363,936)	14,574,075	5,129,662		
<i>Expenditures</i>	13,716,168	34,373	13,750,541	6,662,671	48.5%	44.2%
<i>Encumbrance Reserve</i>	80,811	(80,811)	0	N/A	N/A	N/A
<i>Other Reserves</i>	1,141,032	(317,498)	823,534	N/A	N/A	N/A
<i>Unrestricted Ending Fund Balance</i>	0	0	0	N/A	N/A	N/A
<i>TOTAL USES</i>	14,938,011	(363,936)	14,574,075	6,662,671		

Fund Status

The Public Works Program Support Fund is used to account for the Public Works administrative services provided to various capital programs and the Public Works Fee Program.

Revenues – To generate revenue in this fund, overhead charges are applied to capital project expenditures. These collections are dependent on the level of capital expenditures throughout the city.

Through December, revenue collections totaled \$5,130,000, which represents 36.1% of the budgeted level, and a difference of \$1,533,000 when compared to actual expenditures in the

fund. As there is a one month lag between the time when expenses are incurred and revenue collections are received, the actual under-collection figure through December is approximately \$417,000. Of this amount, \$284,000 is related to charges which will be moved to more appropriate funding sources in the coming months. After these adjustments occur, revenues are still tracking slightly below the expenditure level. As revenue comes into the fund through a rate applied to capital projects when expenditures occur, revenue levels should increase as construction activity increases. Due to the fact that construction activity is weighted towards the second half of the year, it is anticipated that the remaining collection should correct itself as the year proceeds.

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**Public Works Program Support Fund
(Cont'd.)**

Fund Status (Cont'd.)

Revenues (Cont'd.)

Should any revenue shortfall or overage exist at the end of the year due to the rate not fully capturing the level of actual expenditures, the rates will be adjusted at year-end to ensure that final year-end revenues match expenditures. The Budget Office and Public Works Department will closely monitor the status of revenue collections during the remainder of the year.

Expenditures – Overall, expenditures are tracking slightly below anticipated levels, with the exception of the Administration appropriation. This appropriation is 57%

expended, compared to a par level of 46.2%. The primary reason for the overage appears to reflect the fact that this appropriation has been utilized as an expenditure holding account. These charges need to be transferred to appropriate programs to ensure that expenditures are within budgeted levels by year-end. Assuming that these transfers will take place, expenditures in this appropriation total approximately 49.6% of the budget. The Budget Office and the Public Works Department will closely monitor expenditures in this category over the coming months to ensure budgeted levels are not exceeded by year-end. If adjustments are needed and appropriate in this category, those actions will be brought forward for Council consideration in June.

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Stores Fund

	2006-2007 Adopted Budget	Change	2006-2007 Current Modified	2006-2007 YTD Actual	2006-2007 % of Budget	2005-2006 % of Budget
<i>Beginning Fund Balance</i>	1,189,741	(212,596)	977,145	N/A	N/A	N/A
<i>Encumbrance Reserves</i>	389,740	132,110	521,850	N/A	N/A	N/A
<i>Revenues</i>	3,290,000	600,000	3,890,000	1,439,817	37.0%	29.0%
<i>TOTAL SOURCES</i>	4,869,481	519,514	5,388,995	1,439,817		
<i>Expenditures</i>	3,941,771	1,123,977	5,065,748	2,380,035	47.0%	36.4%
<i>Encumbrance Reserves</i>	389,740	(389,740)	0	N/A	N/A	N/A
<i>Other Reserves</i>	33,770	(2,127)	31,643	N/A	N/A	N/A
<i>Unrestricted Ending Fund Balance</i>	504,200	(212,596)	291,604	N/A	N/A	N/A
<i>TOTAL USES</i>	4,869,481	519,514	5,388,995	2,380,035		

Fund Status

Revenues – On an overall basis, revenues in the Stores Fund, administered by the Finance Department, are tracking below anticipated levels. Revenues in this fund are derived from two sources: reimbursements from departments for the purchase of supplies and materials, and the surcharge applied to these reimbursements intended to cover inventory and warehousing operating costs.

While a shortfall of \$940,000 exists through December when actual revenue collections are compared to expenditures, \$700,000 of this can be attributed to a transfer of fund balance to the General Fund that was approved in the 2006-2007 Adopted Budget as a General Fund

balancing strategy. After accounting for this transfer, the shortfall is actually only \$240,000.

The shortfall appears to reflect two factors. First, postage costs have yet to be charged out to departments. The department believes that once this is completed, revenues will increase by approximately \$250,000. In addition, inventory purchases that were frontloaded in the first half of the year to ensure adequate supplies to departments have not been liquidated. As inventory is drawn down and departments purchase more supplies and materials, revenues will improve.

The Budget Office will continue monitor the Fund closely in the coming months to ensure

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(CONT'D.)**

**Stores Fund
(Cont'd.)**

Fund Status (Cont'd.)

Revenues (Cont'd.)

that the appropriate level of reimbursement occurs.

Expenditures – Expenditures through December in the Stores Fund are tracking within budgeted levels.

Fund Balance – No adjustments to the Ending Fund Balance in the Stores Fund are required at this time.

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Transient Occupancy Tax Fund

	2006-2007 Adopted Budget	Change	2006-2007 Current Modified	2006-2007 YTD Actual	2006-2007 % of Budget	2005-2006 % of Budget
<i>Beginning Fund Balance</i>	2,323,241	1,383,133	3,706,374	N/A	N/A	N/A
<i>Encumbrance Reserve</i>	65,383	12,875	78,258	N/A	N/A	N/A
<i>Revenues</i>	11,287,600		11,287,600	4,870,604	43.2%	43.1%
<i>TOTAL SOURCES</i>	13,676,224	1,396,008	15,072,232	4,870,604		
<i>Expenditures</i>	12,492,072	1,417,999	13,910,071	4,637,473	33.3%	46.4%
<i>Encumbrance Reserve</i>	65,383	(65,383)	0	N/A	N/A	N/A
<i>Other Reserves</i>	90,000	0	90,000	N/A	N/A	N/A
<i>Unrestricted Ending Fund Balance</i>	1,028,769	43,392	1,072,161	N/A	N/A	N/A
<i>TOTAL USES</i>	13,676,224	1,396,008	15,072,232	4,637,473		

Fund Status

Revenues – Revenues in the Transient Occupancy Tax Fund are tracking above budgeted levels, reflecting the continuing recovery in the hospitality industry. For 2006-2007, the Adopted Budget estimate assumed a growth rate of 7% over estimated 2005-2006 receipts. Revenue growth to date is approximately 16.6%. However, because 2005-2006 revenue levels exceeded projections, revenues collections can actually decline by approximately 1% to meet the 2006-2007 budgeted levels by year-end. Overall, occupancy rates for the first six months of the fiscal year averaged 57.4%, which is above last year's level of 52.7%. Room rates have increased from last year's average of \$112.3 to \$125.1. Overall, hotel activity is also above

(120%) the same period last year. This primarily reflects a larger number of room-nights sold at slightly higher room rates compared to last year. If this trend continues, revenue could end the year approximately 10-15% above budget.

Expenditures – Expenditures through December in the Transient Occupancy Tax Fund are tracking as anticipated. The slightly lower year-to-date tracking compared to last year is due to a change in the scheduled transfer to the Convention and Cultural Affairs Fund from a one-time transfer to multiple transfers spread over the year.

Fund Balance – No adjustment to the Ending Fund Balance in the Transient Occupancy Tax Fund is required at this time.